

# The fraud of “progressive capitalism”

Nick Beams  
26 April 2019

Alarm bells are starting to ring in some of the upper echelons of the US corporate and financial elites about the prospect of a social explosion as wealth and income inequality reaches new heights.

Earlier this month, the founder and head of the Bridgewater hedge fund, Ray Dalio, posted a lengthy essay, containing data and graphs, showing the exponential growth of inequality over the past three decades, in which he warned that “some sort of revolution” could take place under conditions of a downturn or recession in the US economy.

While expressing his fulsome support for the profit system, which has made him an extremely wealthy individual (his personal wealth is around \$17 billion), Dalio wrote that it was now “producing a self-reinforcing feedback loop that widens the income/wealth/opportunity gap to the point that capitalism and the American Dream are in jeopardy.” These “unacceptable outcomes” were not the result of evil people doing bad things or the product of laziness and bureaucratic inefficiency but were “due to how the capitalist system is now working.”

Across the Atlantic in London, the *Financial Times* noted the growing fears in American financial circles about the growth of anti-capitalist and socialist sentiment in a major article published on Monday entitled “Why American CEOs are worried about capitalism.”

It cited the Dalio essay and his remarks to the CBS program “60 Minutes” that “capitalism is broken” and at a “juncture” and that Americans could reform it together “or we will do it in conflict.”

It also pointed to the concerns of JP Morgan Chase chairman Jamie Dimon who warned in his latest letter to shareholders that the American Dream was “fraying.” Capitalism had lifted billions out of poverty, he wrote, but “this is not to say that capitalism does not have it flaws, that it isn’t leaving people behind and that it shouldn’t be improved.”

These calls for “reform” are motivated by deep fears of the implications of the shift to the left in broad sections of the American population. With his bank having received billions of dollars from the government and benefited to the tune of hundreds of billions more from the cheap money policies of the Fed, Dimon voiced those fears declaring that socialism would be a “disaster for our country.”

Pointing to the motivations of the CEOs, the article cited the president of the \$13 billion Ford Foundation, Darren Walker. “Part of what scares them is politics,” he said. “What really scares them is when they look at data showing young people are increasingly comfortable with socialism as a way of organising the economy. That is incredibly frightening to them.”

According to a Gallup poll last year, 51 percent of 18- to 29-year-old Americans have positive views of socialism while the percentage holding positive views of capitalism had fallen from 68 percent to 45 percent since 2010. These figures are particularly striking in view of the fact that anti-socialism is akin to a secular religion among the US media and political establishment.

Consequently, strenuous efforts are now being undertaken to ensure that this movement to the left does not go further and arrive at the understanding that genuine socialism can only be carried out by means of a political struggle by the working class for the ending of the capitalist profit system. This involves the assertion that some reform of capitalism is possible.

One of these efforts is set out in an article by leading “left” bourgeois economist Joseph Stiglitz, a Nobel laureate in economics, entitled “Progressive Capitalism is not an Oxymoron” published in the *New York Times* on April 19.

Stiglitz begins by pointing out that despite the lowest official unemployment rate since the late 1960s, some 90 percent of the population have seen their incomes stagnate or decline in the past 30 years, that the US has one of the highest levels of inequality among advanced economies and that the economic prospects of young Americans depend more on the income and education of their parents than elsewhere.

“But things don’t have to be that way. There is an alternative: progressive capitalism.” It is based on the understanding that “we can channel the power of the market to serve society.”

This assertion is based on a complete falsification of the history of the capitalist system.

According to Stiglitz, standards of living began to improve in the late 18th century because the development of science led to improved productivity and we “learned how to work together, through institutions like the rule of law, and democracies with checks and balances.”

“Key to both were systems of assessing and verifying the truth. The real and long-lasting danger of the Trump presidency is the risk it poses to these pillars of our economy, its attack on the very idea of knowledge and expertise, and its hostility to institutions that help us discover and assess the truth.”

It would take more space than we have available here to deal with this nonsense, based on the claim that development of the capitalist economy is the result of the application of sweet reason and that the individual Donald Trump has suddenly emerged, as if out of nowhere, to threaten the very pillars of a rational society.

Let us merely point to some historical facts: that in settler capitalist economies such as the US and Australia, capitalist property and market relations were established on the basis of a genocidal war against the indigenous population; that the accumulation of wealth, above all in the birthplace of industrial capitalism, England, and then elsewhere, depended on the intensified exploitation of the working population; that the free market and the system of capitalist property established its global dominance through imperialist wars of conquest, leading two world wars in the 20th century.

Moreover, the establishment of the political framework for the profit system was accomplished in the United States by two revolutions—the War of Independence of 1776-83 and the even more bloody Civil War of 1861-65.

Reforms in the interests of the mass of the population in the US and other major capitalist countries were not made to establish a social contract, as Stiglitz maintains, but were the result of vast social struggles, inspired by and taking their lead from the Russian Revolution of October 1917, and only enacted because of the deep-seated and well-founded fears in the ruling classes that it would spark social upheaval around the globe. This was a political fact of life Roosevelt knew well as he implemented his New Deal, even if Stiglitz has forgotten it.

As for Trump, his rise to the presidency and the establishment of

authoritarian forms of rule, together with the promotion of fascist ideology, is the expression of a deep-seated disease of the entire social and economic order. Trump is not an “outsider” but a veritable product of the historical development of American capitalism.

The centrepiece of Stiglitz’s analysis of the ills of the capitalist economy is that they arise from the “adoption of the neoliberal fantasy that unfettered markets can deliver prosperity to everyone.” This view, he continues, must now be put to rest in order that “progressive capitalism,” based on a “new social contract between voters and elected officials, between workers and corporations, between rich and poor, and between those with jobs and those who are un- or underemployed,” can be established.

This view, advanced in various forms by a slew of would-be reformers, from neo-Keynesian economists to the so-called “left” of the Democratic party, is that if only there is a return to some form of the “social compact” of the post-war period, then American capitalist society can enjoy a new lease on life.

But the question none of them ever addresses, let alone answers in any meaningful sense, is why did this so-called social compact—itsself more a fantasy than a reality because post-war America was riven with class and social conflicts—collapse?

It is as if suddenly one morning, around the end of the 1970s, political leaders in the US and around the world woke up on the wrong side of the bed and decided that the ideology of the unfettered free market had to be adopted, destroying the very social order that they had so carefully constructed in order to maintain capitalist rule after the turbulent, and at times revolutionary, struggles of the previous period.

There is no trace of science, economic or otherwise, in such a method. It seeks the source of changes in the capitalist economy in the mindset of bourgeois politicians, such as Reagan or Thatcher in the 1980s, or in the shifts in the theories of bourgeois economics from Keynesian state regulation to the free market doctrines of Milton Friedman.

A scientific explanation for the ending of the post-war boom must be sought in the internal, material, objective processes of the capitalist economy, which were the source of the adoption of neo-liberalism based on the unfettered domination of the market and finance capital.

In an effort to boost his assertion of the possibility of “progressive capitalism,” Stiglitz harks back to the period following World War II when it appeared that the “American Dream,” after the devastation of the 1930s, was finally being realised.

“As an economist,” he writes, “I am always being asked: Can we afford to provide this middle class life for most, let alone all, Americans? Somehow, we did when we were a much poorer society after World War II.”

The implication is that since America today is a much richer country in terms of the production of material wealth than the post war period, then it must be possible, under capitalism, to provide the rising living standards that characterised the three decades following the war.

Such assertions are based on a fundamental flaw. The driving force of the capitalist economy, its inherent dynamic, is not the provision of more material wealth. Capitalism is driven by the accumulation of profit, the source of which is the surplus value extracted from the working class in the process of production. And here the key question is the rate at which this accumulation takes place, measured by the rate of profit.

The historical development of the post-war boom, its demise and the evolution of the capitalist economy in the period since then must be examined from this standpoint. America was a “poorer” country in the post-war period in the sense that it produced less material wealth both on an absolute and per capita basis than today. But in that period American capitalism enjoyed stable and even rising profit rates.

This upswing, following the disasters of the 1930s, was the result of global processes. It was the outcome of the extension of the more

productive methods of American industrial capitalism to the other major economies—Germany and Western Europe, the UK, Japan and lesser capitalist powers such as Australia and New Zealand—which significantly increased the mass of surplus value extracted from the working class.

From the standpoint of the capital accumulation process, all reforms and concessions to the working class—rising wages and improved social conditions—represent a deduction from the mass of surplus value available to capital for its expansion. But such was the expansion of the available surplus value in the post-war boom that both rising profit rates and rising living standards were possible. As the saying had it: a rising tide lifted all boats.

To the short-sighted bourgeois academy, it appeared that the fundamental contradictions of capitalism, laid bare by Marx, contradictions that had produced two world wars, fascism and the Great Depression in the space of just three decades, had been overcome.

But the expansion of the post-war boom could not continue indefinitely. By the end of the 1960s and the beginning of the 1970s, profit rates began to turn down. The law of the tendency of the rate of profit to fall, characterised by Marx as the most important law of political economy from the historical point of view, had begun to reassert itself. In essence, this meant that the concessions made to the working class now came into direct conflict with the requirements of capital accumulation, that is, with the motive force of the profit system.

All attempts to resolve this situation within the framework of the post-war social and economic order failed. Efforts to step up the exploitation of the working class within the existing system of industrial production only produced ever more militant struggles. At the same time, the methods of Keynesian economics, based on the stimulation of the economy through government intervention, only resulted in stagflation. That is, a rise in unemployment coupled with accelerating inflation, which the Keynesian doctrine had ruled out.

Faced with this intractable situation, the ruling classes in the US and the other major economies, now espousing the doctrines of neo-liberalism, organised a fundamental restructuring of the capitalist economy. It comprised a series of interconnected components including: the destruction of vast areas of post-war industry; the organisation of global production to utilise cheaper sources of labour; and the employment of new computer-based technologies and information systems to slash production costs and intensify the exploitation of labour.

These measures were accompanied by the unleashing of finance capital from the constraints that had been imposed on it during the post-war boom. This enabled it to play a central role in the complete reorganisation of industry through takeovers, mergers and acquisitions, often via the so-called junk bond market, as well as creating the conditions for the accumulation of profit via the stock market and other forms of speculation.

The upshot was to institutionalise a system in which the wealth created by the labour of the working class was siphoned up to the heights of society, leading to the stagnation and outright decline in real wages and the creation of the greatest level of social inequality seen at any point in history, in the US and around the world.

Sweeping changes were required in the legal framework to facilitate this domination of finance capital. In his article, Stiglitz points to the key role played by the Reagan administration in beginning this process. But he stops there. The measures adopted under Reagan were only the start. They were continued and deepened under the Clinton administration, of which Stiglitz himself was a part as chairman of the president’s Council of Economic Advisers in 1995-97.

It was the Clinton administration, with Robert Rubin taking the helm as treasury secretary after 26 years at Goldman Sachs, which ended “welfare as we know it” and repealed the Glass-Steagall Act in 1999, removing the last remnants of the restrictions imposed on finance capital in the 1930s.

While the measures enacted over the past three decades have enabled an increase in profit rates, there has been no return to the conditions of the post-war boom. The US economy is no longer characterised, as it was in that period, by the growth of investment and the expansion of decent-paying jobs, but by the rise and rise of parasitism and speculation. This has been accompanied by new forms of exploitation, ever-present job insecurity, two-tier wage systems and the growth of casual and just-in-time employment conditions, coupled with the worsening conditions for public employees, above all teachers.

The US economy is no longer driven by the investment in new production facilities but has become increasingly dependent on the injection of trillions of dollars into the financial system to fund speculation, starting with the decision of the then chairman of the US Federal Reserve, Alan Greenspan, to open the spigots for the banks and finance house following the October 1987 stock market crash.

All of these tendencies and processes have reached new levels in the decade since the financial crash of 2008 such that the US economy and financial system cannot tolerate any return to what were once considered “normal” monetary policies lest this produce a new and even more devastating crisis.

The central plank of the program advanced by Stiglitz and others is an increase in taxes to bring about a new social compact. But the bankruptcy of this perspective is immediately exposed when one considers what would be the outcome of such measures. Long before being enacted, they would be met with a counter-revolution from above directed against the working class. The lineaments are already in view with the drive by the Trump administration to develop authoritarian forms of rule, supported by the Democrats as they seek to deflect opposition to the Trump regime behind the bogus allegations of Russian interference.

The paths opening up before the American working class, and by extension the working class the world over, are not a “choice” between reform—the development of “progressive capitalism”—and socialism. Rather, the two alternatives are counter-revolution or the fight for socialist revolution, that is, the taking of political power by the working class in order to end the domination of the financial oligarchy and carry out the reorganisation of the entire economy to meet human needs.

The proponents of “progressive capitalism,” above all those in the so-called “left” of the Democratic party, who never lose an opportunity to proclaim their fealty to the market, maintain that theirs is the only “realistic” perspective. In fact it is utterly impossible to realise because the capitalist mode of production, riven by contradictions that have deepened since the ending of the post-war boom, cannot tolerate anything even faintly resembling the reforms of the past.

The struggle for a genuine socialist program is an extremely difficult and complex task. But it is the only viable perspective. In confronting these challenges and overcoming them it is worthwhile recalling the words of Abraham Lincoln in December 1862 as he fought for the Emancipation Proclamation:

“The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise—with the occasion.”

Today, the task is the emancipation of the working class from domination and enslavement by a ruthless financial oligarchy. The outworn dogmas of a bygone era, advanced by Stiglitz and others, are not only inadequate. They are aimed at heading off and diverting the growing anti-capitalist and socialist movement in the working class and the youth from the pressing tasks at hand.





To contact the WSWs and the  
Socialist Equality Party visit:

**[wsws.org/contact](https://wsws.org/contact)**